

UKIP PARLIAMENTARY RESOURCE UNIT

Rethinking aid, freeing trade



Rethinking Aid, Freeing Trade

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Executive summary

The UK government is committed to spend 0.7% of GNI on overseas aid. This has resulted in a significant real-terms increase in the aid budget in recent years, even as other departmental budgets have been cut, financial pressure on the NHS and social care services has grown, and the annual budget deficit is still far from eliminated. This raises the question: is prioritising international aid over public services at home the right use of public resources?

A significant proportion of the aid budget is not spent on either emergency or development aid. Aid is used, for example, to fund political advocacy by NGOs that attacks the liberal principles of free trade and free markets that have lifted millions out of poverty. Some is also consumed by the administrative costs of Britain's multilateral partners, which are often high.

Moreover, the broader effects of development aid are questionable. There is arguably an inverse correlation between national aid receipts per capita and economic growth. Those countries that have emerged from poverty in recent decades – notably India and China – have done so as a result of institutional and market reforms, not international assistance. Indeed, international aid may even perpetuate poor government, thus prolonging poverty rather than preventing it.

Indeed, the 0.7% target, first proposed about fifty years ago, is premised on economic assumptions that not only are no longer applicable, but have been proven false – calling into question the whole basis for official development assistance.

At the same time, poverty in the developing world has been entrenched by protectionism by donor countries. As tariff barriers to the developing world have been lowered, non-tariff barriers have been raised – notably by the European Union. This policy restricts African countries, in particular, to the status of supplicants rather than enabling them to become trading partners.

Aside from emergency humanitarian assistance, international aid is often most effective in disease eradication. Aid funding has successfully eliminated various diseases, either from entire regions or worldwide, and has done so largely without producing the unwanted side-effects that can beset development aid.

Britain's commitment to assist the developing world and end global poverty should reflect the real causes of economic growth: free trade and free markets. It is counterproductive to support aid projects that undermine the conditions for growth, advocacy that seeks to discredit the economic ideas that produced unprecedented prosperity in the West, or trade barriers that deny developing countries opportunities to sell to major global markets. Nor should the British government's commitment to international aid come at the expense of its basic obligations to British citizens and taxpayers.

This paper will, therefore, put forward a different model of aid that promotes free trade with developing countries and retains the most effective aid spending, while significantly reducing the overall aid budget. It will propose to:

1. Repeal the International Development (Official Development Assistance Target) Act 2015
2. Focus resources on emergency aid and disease eradication
3. Reduce the aid budget to £2.5 billion p.a.
4. Abolish trade barriers against the developing world post-Brexit
5. Offer assistance to developing countries to negotiate free trade deals

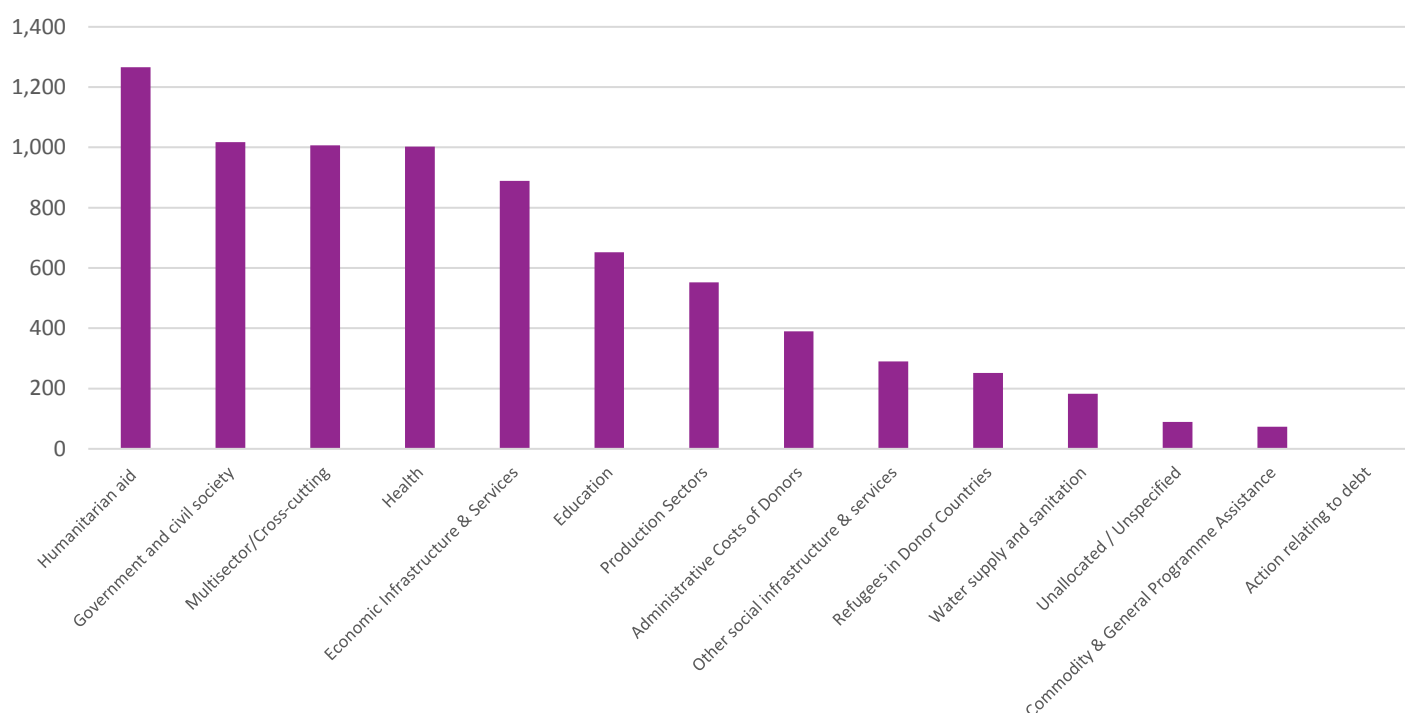
1. Breaking down the aid budget

For many people, the idea of international aid signifies humanitarian assistance, aimed at the world's poorest and most vulnerable. Many may be surprised to learn that much of Britain's aid spending, which totalled £12.1 billion in 2015, does not fall into this category.

International aid is, in fact, very broad. As the table below shows, in 2015, only 16.5% of the UK's £7.7 billion bilateral Overseas Development Aid (ODA) was spent on humanitarian aid, including emergency response (£1.1 billion), reconstruction relief and disaster prevention, which amounted to £1.3 billion – a small proportion of the overall spend.

The remainder can broadly be described as development aid, which aims at long-term poverty reduction and economic development. This includes not only healthcare, education, and sanitation, but also support for governments, local NGOs, infrastructure, private companies, and other social institutions. For example, £1 billion was spent on Government and Civil Society, which includes public administration, financial management, elections, and democratic participation. £0.9 billion was allocated to economic infrastructure and services, which comprises transport, communication, energy, and banking. £0.6 billion went toward production sectors, encompassing agriculture, industry, and tourism. Notably, a further £0.4 billion covered the administrative costs of donors.

Figure 1: Broad sector breakdown of UK bilateral ODA, 2015 (£millions) [source: DFID]¹



The UK also donates much of its aid budget to multilateral organisations, whose spending is effectively untracked. £4.5 billion was allocated in block funding to multilateral organisations in 2015 (listed in figure 2 below), making up 37% of total aid spending.² This figure excludes the £2.1 billion of bilateral aid that is spent on specific projects via multilateral organisations.³ Block grants to multilateral organisations are unrestricted, and therefore entirely fungible. DFID's review of ODA states, 'when DFID or other UK government departments provide core funding to multilateral organisations, it is not possible to directly track the funding to the country or sector where it is spent.'⁴

¹ *Statistics on International Development 2016*, DFID (11/16), p.37:

<https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/572063/statistics-on-international-development-2016a.pdf>.

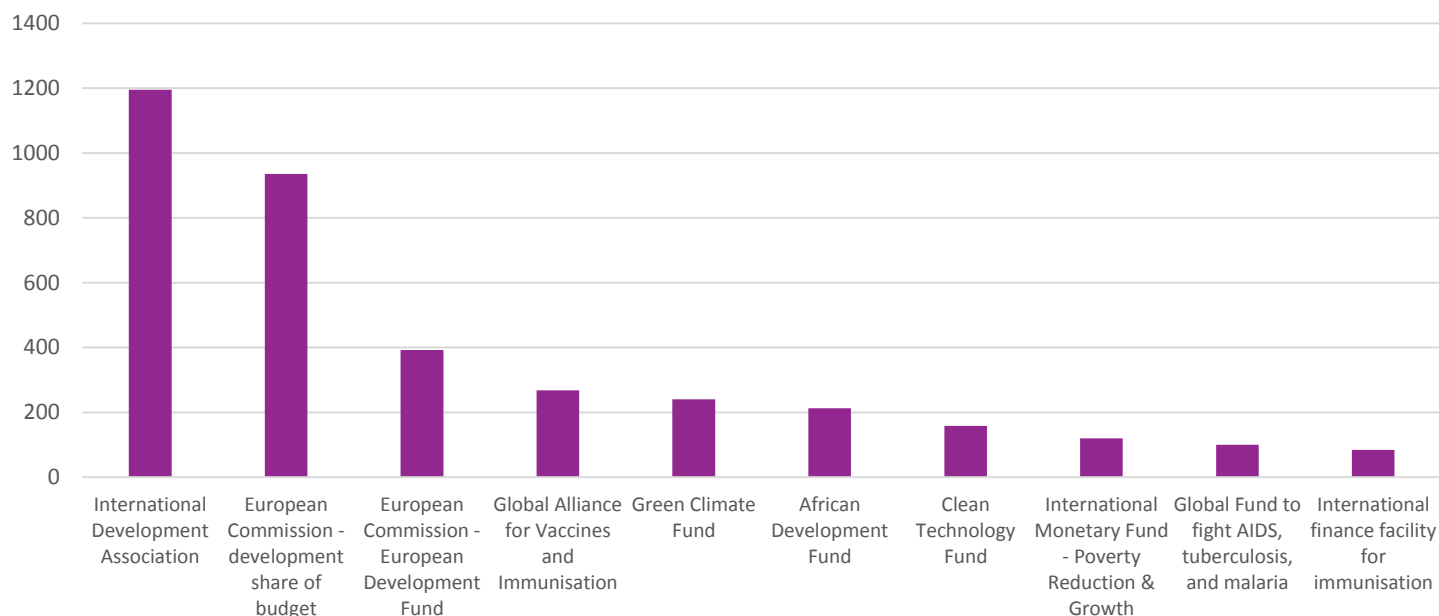
² *Ibid.* p.11.

³ *Ibid.* p.12.

⁴ *Ibid.* p.45.

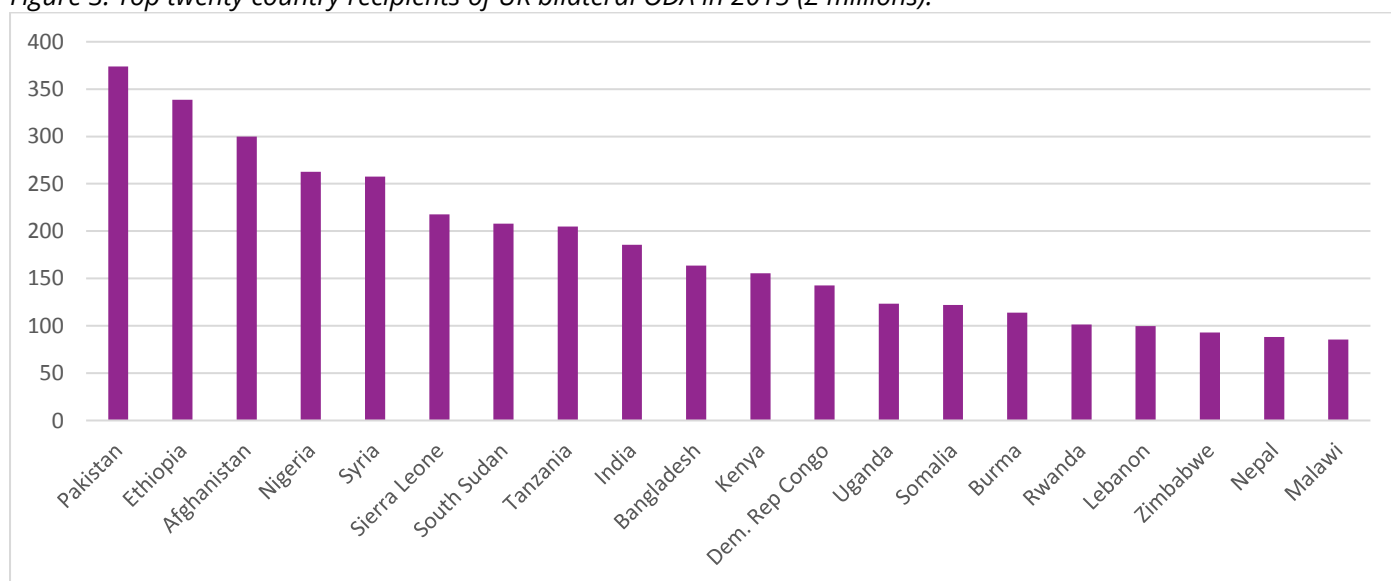
Nonetheless, DFID does provide statistics on the imputed sector shares of multilateral aid, which are similar to those for bilateral aid. In 2014, the latest year for which DFID has figures on imputed spending by sector, £0.5 billion was allocated to emergency humanitarian aid and disease control, around 10% of the total multilateral spending.⁵ The rest was spent on a combination of education, other healthcare, sanitation, civil society, and renewable energy generation, inter alia. Around £100 million, or 2% of the overall multilateral budget, was imputed to administrative costs.⁶ However, other evidence suggests that the administrative costs of some multilateral agencies – notably the World Bank (International Development Association) – are high, limiting the amount of aid that reaches its intended recipients.⁷

Figure 2: Top ten recipients of UK core funding to multilateral organisations in 2015 (£ millions):⁸



The recipient countries also vary considerably. While three fifths of bilateral ODA spending in 2015 targeted the very poorest nations, over 30% was spent in middle-income countries – including the single largest national beneficiary of British aid, Pakistan.⁹ Nigeria and India, both middle-income countries, were also among the top ten recipients (see figure 3 below).

Figure 3: Top twenty country recipients of UK bilateral ODA in 2015 (£ millions):¹⁰



⁵ *Statistics on International Development 2016*, DFID, Additional Table 9.

⁶ *Ibid.*

⁷ See section 4 below

⁸ *Statistics on International Development 2016*, DFID, p.42.

⁹ *Ibid.* p.29.

¹⁰ *Ibid.* p.28.

Looking beyond the headline figures to individual projects raises cause for concern. There were almost 8,000 separate projects funded by UK ODA in 2015, excluding any funded via the multilateral block grants.¹¹ The difficulty of overseeing so many different projects potentially raises the risk of mispending and corruption. Moreover, the stated aims of some aid projects seem to be only loosely connected to overall aid objectives, and arguably represent the soft power interests of the British government or the NGOs it supports more than the needs of the recipient country.

2. When aid isn't aid

a) Funding the advocacy industry

The UK supports organisations that devote a substantial proportion of their resources to political advocacy, much of which is questionable both in its effectiveness and its objectives.

The UK explicitly supports political advocacy by NGOs such as Oxfam that aims to challenge Western economic policies, rather than to alleviate poverty. In 2015, the UK donated £11.2 million to Oxfam International, as part of a multi-year programme partnership arrangement (PPA) worth £64 million over five years.^{12 13} One of the aims of the PPA is to support Oxfam's campaigns for 'pro-poor policy change'.¹⁴ Such initiatives include Even It Up, a campaign against global inequality specifically targeted at the annual World Economic Forum at Davos, which promotes inequality statistics based on a misleading 'net-wealth' methodology. By imputing negative wealth to borrowers, the statistics include Westerners in debt among the poorest people in the world, thus presenting a distorted picture of global wealth.¹⁵ ¹⁶ Oxfam spent a total of £14.8 million on campaigning and advocacy in 2015/16.¹⁷

The UK also supports consumer advocacy by Fair Trade, which seeks to change the behaviour of consumers, but may actually harm the developing world. In 2015, the UK donated £3 million to the Fair Trade Labelling Organisation, as part of a six-year PPA worth £20 million.^{18 19} Fair Trade positions itself as a superior alternative to free trade to Western consumers.²⁰ It aims to raise wages by offering accredited producers in developing countries a minimum price for their goods, which is passed on to consumers in the West. Yet its actual effects are more complex. Critics have pointed out that a large proportion of Fair Trade producers are in relatively developed countries, such as Mexico, Colombia, and South Africa, rather than subsistence economies, while a substantial proportion of Fair Trade's revenue is spent on administration costs.^{21 22} Moreover, a report commissioned by DFID into Fair Trade operations in Africa in 2014 found not only that the schemes failed to raise wages, but that they may actually have exacerbated poverty, stating:

'This research was unable to find any evidence that Fairtrade has made a positive difference to the wages and working conditions of those employed in the production of the commodities

¹¹ Data underlying Statistics for International Development 2016, DFID (2016).

¹² See 'Oxfam Programme Partnership Arrangement [GB-1-202758]', DFID Development Tracker: < <https://devtracker.DFID.gov.uk/projects/GB-1-202758> >

¹³ For 2015 funding, see 'Data underlying statistics on international development 2015', DFID:

< https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/546020/data-underlying-SID-2015a.ods >

¹⁴ 'Business Case and Summary 202758: The Program Partnership Arrangement with Oxfam, DFID (2012): < http://iati.DFID.gov.uk/iati_documents/3718774.odt >

¹⁵ *An Economy for the 99%*, Oxfam (01/17), pp.10-11:

< https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf >

¹⁶ Chris Snowdon, *Oxfam's Inequality Fabrications* (14/09/16, Institute for Economic Affairs): < <https://iea.org.uk/oxfams-inequality-fabrications/> >

¹⁷ *Oxfam Annual Report & Accounts 2015/16*, Oxfam, p.14:

< http://www.oxfam.org.uk/~media/Files/OGB/What%20we%20do/About%20us/Plans%20reports%20and%20policies/7135_AR_2016_WEBv3.ashx >

¹⁸ For 2015 funding, see 'Data underlying statistics on international development 2015', DFID.

¹⁹ 'FAIRTRADE Labelling Organisations International PPA [GB-1-201718]', DFID Development Tracker: < <https://devtracker.DFID.gov.uk/projects/GB-1-201718> >

²⁰ Ian Bretman, 'Introductory Letter to the Charter of Fair Trade Principles' (Fair Trade Labelling Organisations International, 2009), paragraph 2:

< https://www.fairtrade.net/fileadmin/user_upload/content/2009/about_us/documents/2009-09_board-letter_ft-principles.pdf >

²¹ On admin costs, see e.g. Colleen Haight, 'The Problem with Fair Trade Coffee', *Stanford Social Innovation Review*, Summer 2011, p.77.

²² On location of Fair Trade farmers, see e.g. Marc Sidwell, *Unfair Trade* (Adam Smith Institute, 2008) pp. 10-11.

produced for Fairtrade certified export in the areas where the research has been conducted. ... In some cases, indeed, the data suggest that those employed in areas where there are Fairtrade producer organisations are significantly worse paid, and treated, than those employed for wages in the production of the same commodities in areas without any Fairtrade certified institutions (including in areas characterised by smallholder production).²³

In some cases, the UK even funds organisations whose foreign policy aims are contradictory to those of the British government. Notably, DFID funds NGOs operating in Israel and the West Bank that are linked to a wider campaign to delegitimise the state of Israel, to which the British government is officially opposed. For example, DFID has committed £6.5 million over five years to the Norwegian Refugee Council for the purposes of legal assistance to Palestinians, in addition to indirect funding for Yesh Din and the Jerusalem Legal Aid and Human Rights Centre.²⁴ Between them, these organisations seek to cause blockages in the Israeli court system, campaign for Israel to be targeted by international courts and supranational bodies, and label Israel an apartheid state, as documented by the independent watchdog NGO Monitor.²⁵ All of these activities run counter to both the UK's commitment to a final-status agreement via bilateral negotiations, as per the Oslo Accords, and her longstanding official rejection of attempts to delegitimise Israel.^{26 27}

b) Subsidising corporate lobbying

Some spending that is categorised as aid might better be described as lobbying designed to benefit British corporations, notably in China. The Foreign & Commonwealth Office (FCO) has allocated £160k to 'support the development of the offshore Renminbi market'.²⁸ In March 2016, London became the largest clearing centre for the Chinese currency outside of greater China.²⁹ The FCO has also allocated £40k to 'improve China's copyright collective licensing system' and £118k to 'improve intellectual property governance in China'.³⁰ This funding follows the inaugural UK-China copyright week in 2015, which recognised that China is 'a key trading partner for the UK and a market of enormous potential for the creative industries'.³¹ British business interests may indeed be well served by lobbying China to change policy in several areas; it is, however, not clear that these efforts should be categorised as aid.

3. The problem with development aid

The broader question is whether aid is effective in promoting sustainable economic growth; the evidence suggests that it does not. Channelling resources to the poorest parts of the world is challenging. Much of the aid never reaches its intended recipients, either because it is consumed by the administrative costs of the organisations delivering it, or because it is misappropriated by corrupt governments. Moreover, it is possible that aid only entrenches the dysfunctional governance that perpetuates poverty. There is, in truth, very little – or even negative – correlation between the amount

²³ *Fair Trade, Employment & Poverty Reduction in Ethiopia and Uganda, Final Report to DFID, April 2014*, pp.15-16:

< <https://assets.publishing.service.gov.uk/media/57a089f540f0b64974000344/FTEPR-Final-Report-19-May-2014-FINAL.pdf> >

²⁴ See projects GB-1-202443: < <https://devtracker.DFID.gov.uk/projects/GB-1-202443> > , GB-CHC-285776-ISR006: < <https://devtracker.DFID.gov.uk/projects/GB-CHC-285776-ISR006> > , and GB-CHC-285776-WBN002: < <https://devtracker.DFID.gov.uk/projects/GB-CHC-285776-WBN002> >

²⁵ *Exploiting Justice: How the UK, EU, and Norway Fund NGO Lawfare vs. Israel*, NGO Monitor (02/2014):

< http://www.ngo-monitor.org/reports/exploiting_justice_how_the_uk_eu_norway_fund_ngo_lawfare_vs_israel/ >

²⁶ On bilateral negotiations: 'Theresa May rebukes US for 'inappropriate' attack on Israel', *Telegraph*: < <http://www.telegraph.co.uk/news/2016/12/29/theresa-may-rebukes-us-attack-israel/> >

²⁷ 'Foreign Secretary meets with Israeli Foreign Minister', FCO (01/11): < <https://www.gov.uk/government/news/foreign-secretary-meets-with-israeli-foreign-minister> > ; 'Putting a stop to public procurement boycotts', FCO (02/16): < <https://www.gov.uk/government/news/putting-a-stop-to-public-procurement-boycotts> >

²⁸ See project GB-GOV-3-PPY-CHN-1538: < <https://devtracker.DFID.gov.uk/projects/GB-GOV-3-PPY-CHN-1538> >

²⁹ Hudson Lockett, 'UK becomes second-largest offshore Rmb clearing centre', *Financial Times* (28/04/16):

< <https://www.ft.com/content/d552173a-6030-3c83-b4f7-9efc1819bb30> >

³⁰ See projects GB-GOV-3-PPY-CHN-1558: < <https://devtracker.DFID.gov.uk/projects/GB-GOV-3-PPY-CHN-1558> > and GB-GOV-3-PPY-CHN-1551:

< <https://devtracker.DFID.gov.uk/projects/GB-GOV-3-PPY-CHN-1551> >

³¹ 'UK-China copyright week promotes IP protection across borders', Intellectual Property Office (26/08/15): < <https://www.gov.uk/government/news/uk-china-copyright-week-promotes-ip-protection-across-borders> >

of aid a country receives per capita and its growth rate. Several development economists have argued that development aid in fact enables poor governance and prevents the accountability of national institutions to the people.

a) The cost of delivery

A significant proportion of development aid never gets further than the multilateral agencies charged with delivering it. In the 2016 financial year, the UK's single largest multilateral partner, the World Bank (via its subsidiary, the International Development Association), budgeted to spend \$1.97 billion on 'running the business', including administrative, governance, and institutional services, and programme and practice management – just over half of its overall expenditure, which totalled \$3.87 billion.³²

Multilateral spending also lacks sufficient oversight. In its 2015 report on DFID's multilateral spending, the Independent Commission for Aid Impact (ICAI) stated that 'DFID does not have a clear picture of the portfolio of programmes it funds through multilaterals'.³³ It also noted that DFID 'has no explicit overarching strategy for its work with multilaterals' – even though such work accounts for 55% of the UK's aid spending (including both multilateral funding and bilateral spending through multilaterals).³⁴

Indeed, there is a risk that some multilateral agencies have become overly dependent on the UK to function. Noting that DFID is the dominant donor to some agencies, ICAI stated: 'We have become concerned that the mutual dependence of DFID and its multilateral partners might mean that those relationships are now considered "too big to fail"'.³⁵ To some extent, therefore, British aid is simply sustaining an aid bureaucracy.

b) The risk of corruption

Giving aid to developing-world governments is high risk. Aid can not only enable funds to be misappropriated, but also perpetuate corruption. As such, it can do more harm than good.

The risk of misappropriation of funds is significant in the case of the largest national recipient of UK aid, namely Pakistan. The UK provides hundreds of millions in direct budget support to the Pakistani government. In the 2015/16 fiscal year (rather than the calendar year cited above), the UK budgeted £335 million of aid to spend in Pakistan.³⁶ In the current fiscal year, the budgeted figure is even higher: £441 million.³⁷ The UK's contributions to both the Punjab Education Support Programme, worth £420.5 million over five years, and to the IMF's Stability and Growth Programme, worth £340 million over three years, involve direct budget support to the Pakistani government.³⁸

Yet Pakistan's government is among the most corrupt in the world. Transparency International reports that bribery to government officials, both by business and individuals, is rife – so much so that it is directly undermining the security of Pakistani citizens.³⁹ In 2012, the Independent Commission for Aid Impact (ICAI)'s evaluation of DFID's work in Pakistan noted that DFID had introduced fiduciary controls, but cautioned that it would need to intensify these measures as the scale of British aid increased.⁴⁰

³² FY16 World Bank Budget, World Bank, p.38, (25/09/15):

< <http://documents.worldbank.org/curated/en/525671468188047741/pdf/100629-BR-R2015-0106-1-Box393233B-PUBLIC.pdf> >

³³ 'How DFID works with multilateral agencies to achieve impact', ICAI (06/2015), p.31.

³⁴ Ibid. p.17.

³⁵ Ibid. p.35.

³⁶ See 'Pakistan', DFID Development Tracker: < <https://devtracker.DFID.gov.uk/countries/PK> >

³⁷ Ibid.

³⁸ See DFID Development Tracker: < <https://devtracker.DFID.gov.uk/countries/PK/projects> >

³⁹ See 'Pakistan', Transparency International: < <https://www.transparency.org/country/PAK> >; 'Pakistan: Corruption Threatens The Security Of Citizens', Transparency International Pakistan (25/04/14): < https://www.transparency.org/news/pressrelease/pakistan_corruption_threatens_the_security_of_citizens >

⁴⁰ Evaluation of DFID's Bilateral Aid to Pakistan, ICAI (10/2012), p.15: < https://www.oecd.org/countries/pakistan/ICAI%20Pakistan%20Report_P1.pdf >

The risk is even higher in developing countries in which aid makes up a much greater proportion of government expenditure, such as Afghanistan – where aid accounts for over 60% of government expenditure, compared to 8% in Pakistan.⁴¹ In the 2015/16 fiscal year, the UK budgeted for £125 million in aid to Afghanistan, rising to a projected £172 million in the current fiscal year.⁴² DFID does not provide aid directly to the Afghan government. However, DFID does support agencies that do work in partnership with the Afghan government and provide it with funding. For example, DFID has pledged £15 million over five years to the Afghanistan Reconstruction Trust Fund (ARTF), which ‘reimburses the government for a portion of eligible and non-security-related operating expenditures every year’.^{43 44}

DFID’s exposure to the misappropriation of funds in Afghanistan is potentially significant. In 2012, ICAI gave DFID an amber-red rating for its programme controls and assurance in Afghanistan, stating that ‘DFID is exposed to a significant risk of leakage’.⁴⁵ Noting that ‘many sources of evidence suggest that fraud and corruption are endemic in Afghanistan,’ ICAI went on to report:

‘DFID does not have a comprehensive approach to counter-fraud and anti-corruption initiatives in the management and monitoring of its programmes. As a result, DFID does not know, for the majority of programmes, what proportion of aid actually reaches its intended beneficiaries.’⁴⁶

The misappropriation of funds, especially by governments, is one reason why development aid can be ineffective – or even counterproductive.

c) No correlation

Billions of dollars in development aid have been channelled to poor countries over the past fifty years, with the express purpose of alleviating poverty through enabling sustained economic growth. So why is it that many of these countries’ economies are not growing?

There is, in fact, virtually no correlation between aid and economic growth. The best examples of economic take-off in recent decades – China and India – have not occurred as a result of development aid. As the two countries with the largest populations in the world, both received very little aid per capita. Yet both have lifted billions out of poverty in a very short space of time. By contrast, other countries with the same level of GDP per capita in 1960 have received vastly greater levels of aid per capita, yet their GDP per capita has barely risen (see figures 4 and 5 on the following page). Indeed, as the economist William Easterly has noted, Africa has experienced an inverse correlation between aid flows and economic growth, with per capita growth falling in the 1990s as aid flows rose.⁴⁷

China, Indonesia, and India have grown by virtue of opening their markets to international trade and investment, while maintaining relatively stable and effective government. Countries that have failed to grow have invariably also failed to follow their example. Development aid is supposed to promote economic and institutional progress in that manner. The danger is that, in reality, it does the opposite.

⁴¹ Data from the World Bank (most recent available figure [2013]): < <http://data.worldbank.org/topic/aid-effectiveness?locations=AF-PK> >

⁴² ‘Afghanistan’, DFID Development Tracker: < <https://devtracker.DFID.gov.uk/countries/AF> >

⁴³ See ‘Afghanistan Infrastructure Trust Fund: Phase 2’, DFID Tracker: < <https://devtracker.DFID.gov.uk/projects/GB-1-203952> >

⁴⁴ ‘Afghanistan Infrastructure Trust Fund’, Asian Development Bank (2010) ss. II/4: < <https://www.adb.org/sites/default/files/institutional-document/33368/files/aitf.pdf> >

⁴⁵ ‘The Department for International Development: Programme Controls and Assurance in Afghanistan’, ICAI (03/2012), p.1: < http://icai.independent.gov.uk/wp-content/uploads/ICAI-Afghanistan-Final-Report_P13.pdf >

⁴⁶ Ibid. pp.14-15.

⁴⁷ William Easterly, ‘Can Foreign Aid Buy Growth?’, *The Journal of Economic Perspectives*, Vol. 17, No.3 (American Economic Association, Summer 2003) p.35.

Figure 4: GDP per capita in China, Indonesia, India, Pakistan, Ethiopia, and the DRC (constant 2010 USD).⁴⁸

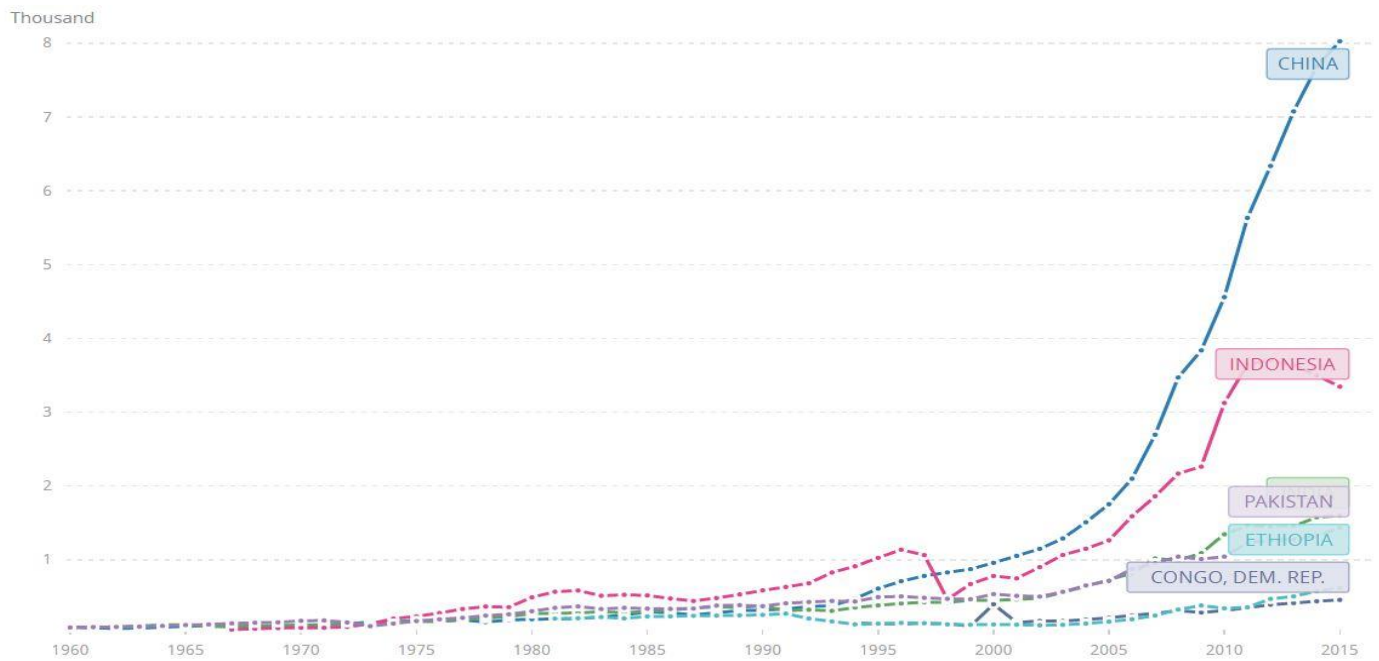
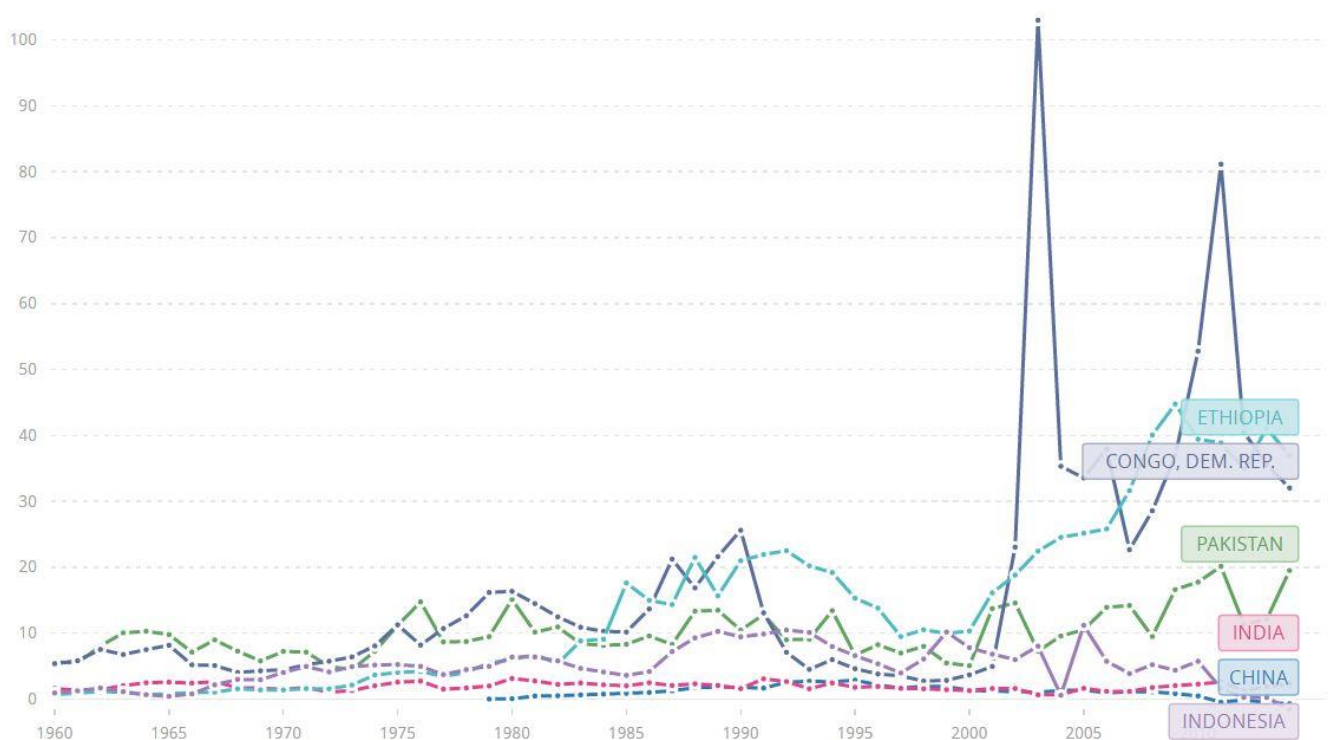


Figure 5: Aid per capita in China, Indonesia, India, Pakistan, Ethiopia, and the DRC (constant 2010 USD).⁴⁹



d) Reverse causation?

Some economists have argued that, far from enabling sustainable development, aid hinders it. In his 2013 book *The Great Escape*, Prof. Angus Deaton critiques what he calls a 'hydraulic' conception of aid – according to which simple redistribution from rich countries to poor countries alleviates poverty as if mechanically. He writes:

'Aid flows are more than enough to eliminate global dollar-a-day poverty, at least if the money were transferred from the people and governments in rich countries directly to those who are

⁴⁸ Data & graph from the World Bank.

⁴⁹ Ibid.

*living on less than the global poverty line. We cannot say anything sensible about aid unless we understand why this does not happen.*⁵⁰

The mistake, Deaton argues, is to believe that the cause of poverty is a lack of resources. He points out that (as of 2013) thirty-six out of forty-nine countries in sub-Saharan Africa had received at least 10% of their income in aid for three decades or more. In fact, he argues, the volume of aid perpetuates poverty: not only by sustaining corrupt governments directly; but by undermining the possibility of a social contract between the government and the governed, since neither is then dependent on the other. Large aid flows break the symbiotic link between the people and the government necessary for sustainable growth. He continues:

*'even in good environments, aid compromises institutions, it contaminates local politics, and it undermines democracy. If poverty and underdevelopment are primarily consequences of poor institutions, then by weakening those institutions or stunting their development, large aid flows do exactly the opposite of what they are intended to do.'*⁵¹

Inclusive, rather than extractive, institutions are the key ingredient for economic growth, according to the economists Daron Acemoglu and James Robinson. In *Why Nations Fail*, they too argue that aid does little to promote these institutions, writing:

*'Countries need inclusive economic and political institutions to break out of the cycle of poverty. Foreign aid can typically do little in this respect, and certainly not with the way that it is currently organised. Recognising the roots of world inequality and poverty is important precisely so that we do not pin our hopes on false promises. As those roots lie in institutions, foreign aid, within the framework of given institutions in recipient nations, will do little to spur sustained growth.'*⁵²

Increased spending on development aid cannot be justified on the basis of promoting long-term economic development. Yet that is precisely the basis of the 0.7% target.

4. The arbitrary target

Britain's commitment to spend 0.7% of GNI on overseas aid was enshrined in law via the International Development (Official Development Assistance Target) Act 2015.⁵³ But spending on this scale is a very recent phenomenon. From 1970 to 2005, UK ODA spending consistently represented between 0.3 and 0.4% of GDP.⁵⁴ The decision to meet the target was a fulfilment of a commitment that the UK made in principle in 1974.⁵⁵ Yet the economic conditions underlying the target then no longer apply today. Indeed, the assumptions behind the target are demonstrably false.

The 0.7% target was an arbitrary political compromise from the outset. Adopted by the UN General Assembly in 1970, it reflected economic research arguing that the reason developing countries were not experiencing economic growth was that they lacked the minimum amount of productive capital necessary to make growth possible.⁵⁶ Aid, it was therefore posited, should make up the difference, or financing gap, between domestic savings and the capital threshold.⁵⁷ In 1970, the financing gap was estimated at \$10 billion, which at the time happened to represent 1% of the combined GNI of donor

⁵⁰ Angus Deaton, *The Great Escape* (Princeton University Press, New Jersey, 2013) p.272.

⁵¹ Ibid. p.305.

⁵² Daron Acemoglu & James A. Robinson, *Why Nations Fail* (Crown Publishers, United States, 2012), p.452.

⁵³ Jon Lunn & Laura Booth, *The 0.7% aid target: June 2016 update* (House of Commons Library, 20/06/16), p.4. Also see *International Development (Official Development Assistance Target) Act 2015*: < http://www.legislation.gov.uk/ukpga/2015/12/pdfs/ukpga_20150012_en.pdf >

⁵⁴ *Statistics on International Development 2016*, DFID, p.4.

⁵⁵ Lunn & Booth, *The 0.7% Aid Target*, p.4.

⁵⁶ Michael A. Clemens & Todd J. Moss, *Ghost of 0.7%: Origins and Relevance of International Aid Target* (Centre for Global Development, 09/2005), pp.5-6.

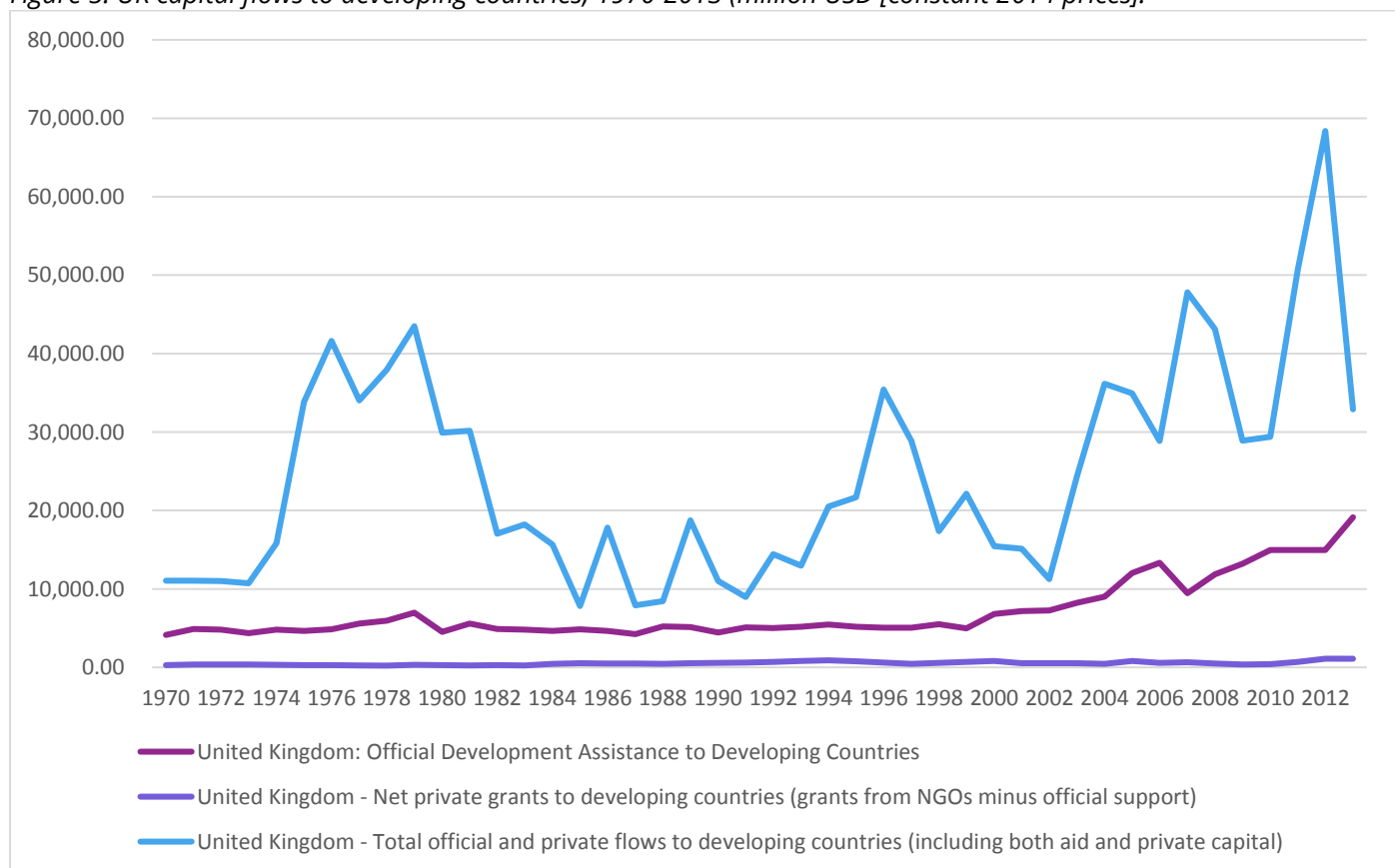
⁵⁷ Ibid.

countries.⁵⁸ Because the combined public and private capital flows to the developing world had reached 0.6% of developed-country GNI in the mid-1960s, 0.7% was adopted as an attainable goal for official development aid.⁵⁹

However, the calculations that led to the notion that 1% of ODA p.a. would be enough to generate self-sustained growth, and therefore eliminate poverty, cannot be justified. Using the same assumptions, the developing world should have begun sustained growth decades ago. In 2005, research economists at the Centre for Global Development published a paper examining how much aid would be required to meet the developing world's capital needs in the early 2000s based on the financing gap model. They found that, by 2003, low-income countries would have required only 0.01% of developed countries' collective GNI in aid, while the aid requirements for the developing world as a whole would be negative.⁶⁰ This reflected the fact that the savings rate had risen in the developing world since 1960, while donor countries' GNI had risen considerably. Yet the actual private and public capital flows to the developing world in 2003 were significantly higher: 0.2% of developed countries' GNI to low-income countries, and just 0.8% to the developing world as a whole.⁶¹ Indeed, based on the model, the developing world should have been growing at 9% p.a. given the actual capital inflows; yet, in fact, the average annual growth rate in the developing world was only 2.7%.⁶² The model does not reflect reality.

The problems with the model are, in fact, manifold. Aid is not synonymous with capital, nor does it necessarily crowd in investment. Overall capital flows to the developing world are significantly higher than they were in 1970 (see UK capital flows in figure 5 below). Moreover, as discussed in the last section, excessive aid flows can undermine other necessary conditions for sustained growth.

Figure 5: UK capital flows to developing countries, 1970-2013 (million USD [constant 2014 prices]):⁶³



⁵⁸ Michael A. Clemens & Todd J. Moss, *Ghost of 0.7%: Origins and Relevance of International Aid Target*, pp.5-6.

⁵⁹ Ibid. pp.11-14.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Data from the OECD.

Yet perhaps the biggest issue with the target is that it focuses not on the needs of developing countries, but on the economic output of donor countries. Those needs are not a function of economic growth in the West. A fixed spending target is arbitrary by definition.

5. When aid works

While aid rarely fixes poor institutions, and may even prevent them from developing, it remains the most effective way to protect people from the immediate consequences of natural disasters or state failure, and to eradicate infectious disease.

a) Emergency response

Aid provides a vital stopgap when a country with essentially functional institutions are temporarily overwhelmed by circumstances beyond their control, such as occurs in the aftermath of a natural disaster. DFID is often one of the leading bodies worldwide to provide emergency assistance, as it did, for example, following Typhoon Haiyan in the Philippines. The typhoon, which struck in November 2013, was responsible for 6,200 deaths, the destruction of 1.1 million homes, and the displacement of 4.1 million people.⁶⁴ The UK, via DFID, was the largest single donor of humanitarian assistance, committing aid worth £77 million, or 16% of the total aid received.⁶⁵ DFID provided material for food, shelter, sanitation and other direct support for over 1 million people.⁶⁶ In its review of the UK's assistance, ICAI praised the swiftness of DFID's response, which began with monitoring of the situation two days before the typhoon made landfall, noting that 'DFID's procurement was so effective that it brought substantially more essential NFIs [non-food items] into the Philippines in the first six weeks (when they were most needed) than the UN's Humanitarian Response Depot (UNHRD) network'.⁶⁷ It further highlighted the impact of both the Royal Navy and the RAF, which provided assistance to islands and regions that would otherwise have been cut off for weeks longer.⁶⁸ ICAI gave an overall 'green' rating to the response effort, its top grade.⁶⁹

Humanitarian aid also supplies basic amenities that cannot be delivered by other sources as a result of state failure and civil war, as has occurred in Syria. In 2015, DFID spent £202 million to provide shelter, food, and relief packages to Syrian refugees both in Syria and the surrounding countries.⁷⁰ However, this is to be distinguished from additional aid funding to Syrian opposition groups by the FCO, in an attempt to bolster their governance capabilities. Whether such support has played a useful role in the conflict is outside the remit of this paper. It is nonetheless evident that, while humanitarian aid has helped millions of refugees meet their immediate needs, the results of attempts at state-building are far less clear.

b) Disease eradication

Over the past fifty years, aid has successfully enabled the elimination of a number of infectious diseases, both in humans and livestock. Several fatal diseases have been eradicated from entire regions and, in some cases, globally. Smallpox and the cattle disease rinderpest have been eradicated completely, while the number of cases of tetanus, malaria, and guinea worm has been radically reduced. This has

⁶⁴ *Rapid Review of DFID's Humanitarian Response to Typhoon Haiyan in the Philippines*, ICAI (03/2014), p.1.

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

⁶⁷ *Rapid Review of DFID's Humanitarian Response to Typhoon Haiyan in the Philippines*, ICAI, p.11.

⁶⁸ *Ibid.* p.14.

⁶⁹ *Ibid.* p.1.

⁷⁰ *Statistics on International Development 2016*, DFID, p.35.

been achieved through vaccination, which has been carried out over decades by international aid agencies. In recent years, aid has also funded antiretroviral treatment for HIV in Africa.⁷¹

In *The Great Escape*, Angus Deaton argues that these vertical health programmes – implemented by international agencies – tend to be significantly more successful than horizontal health programmes – those attempting to develop local healthcare systems – which require much greater state capacity.⁷² As such, they are to be distinguished from broader development aid. In addition, he notes that the prevalence of disease does not correlate with wider economic development, and that it was eradicated in the West through deliberate public health interventions rather than as a function of higher standards of living.⁷³ It is also worth remarking that six out of seven of the top charities recommended by Givewell, which rates development charities based on their cost effectiveness, are dedicated to disease eradication, specifically targeting malaria and worms.⁷⁴

Support for international agencies eradicating disease in developing countries is a key priority for the UK. DFID is currently committed to spend £300 million over six years on the effort to eradicate polio, supporting the Global Alliance for Vaccines and Immunisation (GAVI) and the World Health Organisation (WHO).⁷⁵ It has also agreed to spend £1 billion over six years in core support for GAVI, with the intention of immunising 75 million children in 73 countries against diseases including malaria, ebola, measles, rubella, cervical cancer (human papilloma virus), and certain varieties of pneumonia and diarrhoea.⁷⁶ Between 2013 and 2016, DFID further supported the Global Fund to fight AIDS, TB and Malaria with £800 million, aiming to prevent 8.4 million new infections.⁷⁷

6. The damage of trade barriers

Since the 1990s, Western tariff barriers to the poorest countries have progressively been lowered. However, at the same time, non-tariff barriers have been raised – particularly by the EU. These have limited the ability of developing countries to export to Western markets. Brexit offers Britain the opportunity to help the developing world follow the example of China and India by opening up our market.

While the developed world has reduced tariff barriers to the very poorest countries, the EU in particular has partially replaced them with an increasing array of regulations that function as non-tariff barriers. Strict rules of origin and traceability requirements especially limit the export of agricultural processed goods, since producers in developing countries are often unable to source intermediate goods locally, and therefore cannot demonstrate that their products contain enough local content to satisfy the criteria to allow tariff preference.⁷⁸ Technical standards, including marking, labelling, packaging, testing, sanitary, and phytosanitary requirements, also limit exports, as many developing countries do not have the institutional capability to fulfil them.⁷⁹ Also problematic are CAP subsidies that enable EU producers to sell at well below market prices, especially given that agricultural produce is a key export for the poorest countries.⁸⁰ This is protectionism through the back door.

⁷¹ Max Roser, 'Eradication of Diseases', *Our World in Data* (2016) : < <https://ourworldindata.org/eradication-of-diseases/> >

⁷² Angus Deaton, *The Great Escape* pp. 309-310.

⁷³ Ibid. p.41; pp.93-94.

⁷⁴ See Givewell: < <http://www.givewell.org/charities/top-charities> >

⁷⁵ Project GB-1-203826: < <https://devtracker.dfid.gov.uk/projects/GB-1-203826> >

⁷⁶ Project GB-1-204240: < <https://devtracker.dfid.gov.uk/projects/GB-1-204240> >

⁷⁷ Project GB-1-204389: < <https://devtracker.dfid.gov.uk/projects/GB-1-204389> >

⁷⁸ See Sushil Mohan, Sangeeta Khorana & Homagni Choudhury, *Barriers to prosperity – developing countries and the need for trade liberalisation* (Institute for Economic Affairs, 11/2012) p.18.

⁷⁹ Ibid. p.17.

⁸⁰ Lee Crawford, Ian Mitchell & Michael Anderson, *Beyond Brexit: Four steps to make Britain a global leader on trade for development* (Center for Global Development, 01/2017) p.4.

The EU also, in effect, progressively raises tariffs as countries develop. It applies no tariffs or quotas on the least developed countries (LDCs), but only reduced tariffs for a broader group of developing countries under the generalised system of preferences.⁸¹ Such tariffs apply most of all to agricultural products. As such, countries have more favourable terms of trade with the EU the less developed they are – creating a perverse incentive not to develop. A recent study on possible pro-poor reforms to Britain's trade policy post-Brexit notes that 'the overall average level of trade protection that the EU applies to developing countries is higher than that applied by several high-income countries outside the EU, and it is particularly high in the agricultural sector.'⁸² Excluding LDCs, the EU imposes tariffs of 18.9% to agricultural goods from the developing world, which effectively rise to 36.5% including the effect of CAP subsidies.⁸³

Furthermore, EU tariffs are numerous and complex. The EU presently has over 12,600 tariffs (compared, for example, to just over 1,000 in Norway), which vary by country group – further complicating compliance with rules of origin.⁸⁴ Moreover, the *de minimis* goods value for collection of import duties in the EU is €150 for tariffs, and only €22 for VAT – compared to \$800 for tariffs in the United States (where VAT is also not applicable).⁸⁵ At these levels, the cost of collection potentially exceeds the revenue generated.⁸⁶

Brexit provides the opportunity to overhaul trade policy to benefit the developing world. Leaving the single market enables Britain to lift regulatory, non-tariff trade barriers, particularly those affecting agricultural produce. Exiting the customs union enables Britain to pursue a policy of free trade towards poor countries that does not punish them for economic growth. In addition, once Britain has resumed negotiating her own trade agreements, her knowledge and skills can, over time, be offered to developing countries to enable them to negotiate beneficial free-trade agreements.

7. Conclusion and Recommendations

Britain is right to support the development of poor countries. However, development aid has not proven an effective means to promote economic growth, while the economic assumptions behind the 0.7% target have proven inaccurate. Much of the change developing countries need must come from within, and attempts to effect it from without can be damaging. At the same time, Britain's aid commitment to the developing world needs to be balanced against obligations to her own citizens.

Yet, post-Brexit, Britain can make development easier – through free trade. Protectionist trade policies by the EU restrict exports from poor countries, thereby hindering economic growth. Leaving both the European single market and the European customs union will enable Britain to liberalise her trade policy and open up her markets to produce from the developing world. UKIP has long been committed to a policy of trade, not aid. Brexit allows that policy to become a reality.

UKIP would therefore reduce the overall aid budget, while pursuing freer trade with developing countries, and maintaining spending on certain areas. We would, at the outset, fulfil all existing aid contracts. For new aid spending, we would prioritise emergency humanitarian aid and disease eradication, while leaving scope for further spending chiefly on particular projects in health, education, and water supply and sanitation on a case by case basis. However, we would phase out support for

⁸¹ Ibid. p.5

⁸² Ibid. p.5.

⁸³ Ibid. p.6.

⁸⁴ Ibid.

⁸⁵ Ibid. p.13.

⁸⁶ Ibid.

development more broadly, such as government and civil society, economic infrastructure, and production, and end funding for advocacy. We note that spending on the emergency response component of bilateral humanitarian aid amounted to £1.1 billion in 2015, while a further £0.5 billion of multilateral aid was spent on both emergency humanitarian aid and disease control.⁸⁷ In order to safeguard these areas of spending, as well as enable other spending as required, we would reduce the overall aid budget (subsequent to the expiry of existing aid contracts) to £2.5 billion p.a. We would consequently also propose the legislative changes necessary to reduce aid spending below the current 0.7% target.

In sum, we propose to:

1. Repeal the International Development (Official Development Assistance Target) Act 2015
2. Reduce overall aid budget to £2.5 billion a year
3. Focus aid on humanitarian aid and disease eradication
4. Phase out development aid
5. Pursue free trade with developing countries, via a minimal and simple tariff regime
6. Reduce non-tariff barriers to trade with developing countries
7. Provide assistance in due course to developing countries seeking to negotiate free-trade deals

⁸⁷ See section 1 above.